FDIC NEWS RELEASE

FEDERAL DEPOSIT INSURANCE CORPORATION

FOR IMMEDIATE RELEASE PR-123-91 (8-23-91)

FDIC ISSUES MID-YEAR FINANCIAL RESULTS FOR THE BANK INSURANCE FUND, REACHES AGREEMENT WITH GAO OVER ACCOUNTING METHODOLOGY

The Federal Deposit Insurance Corporation announced today that its preliminary financial statements show that the Bank Insurance Fund (BIF) had a balance of $4.5 billion as of June 30, 1991.

The mid-year results are based on a revised method to determine the BIF's contingent liabilities for losses from future bank failures. The FDIC's new methodology was agreed to today in concept by the U.S. General Accounting Office (GAO) as the appropriate method for determining the amount of anticipated losses that should be recognized with respect to operating banks that are expected to fail in succeeding accounting periods. Using the new methodology, the FDIC also announced today and the GAO concurred that the BIF ended 1990 with a balance of $4.0 billion.

The FDIC, in accordance with generally accepted accounting principles (GAAP), recognizes as a liability estimated losses from banks that have not failed but are likely to close. The agency previously announced that its preliminary figures for year-end 1990 showed the size of the BIF fund had declined 37 percent from the previous year, to $8.4 billion, based in part on a $3.4 billion contingent loss liability related to bank failures that either occurred in early 1991 or were expected to occur during the year. However, after audit review by the GAO, the amounts were adjusted to reflect a larger loss liability for expected 1991 failures.

The FDIC's and the GAO's general agreement on a methodology for determining the contingent loss liability, to be refined over the next several

-moreweeks, will set a clearer standard for the future. In general, the FDIC and the GAO agreed that contingent losses will be recognized for troubled but still operating institutions that meet one of two conditions.

One condition is that the institution be "equity insolvent," meaning that its equity under GAAP was zero or less based on the most recent financial reports filed with bank regulators. The other is that the institution is not technically equity insolvent but its earnings trend and other financial attributes indicate that the institution is, "in substance," equity insolvent.

Using this methodology, contingent losses at year-end 1990 would be set at \$7.7 billion — about \$4.3 billion above what the FDIC originally determined. In essence, the FDIC has set aside \$7.7 billion of the BIF balance at year-end 1990 to handle failed bank losses for 1991. That brings the fund balance at year-end 1990 to \$4.0 billion, or about 21 cents per \$100 of insured deposits. The preliminary BIF balance of \$4.5 billion at mid-year 1991 would translate to 23 cents per \$100 of insured deposits.

The GAO is expected to finalize its audit of the 1990 BIF financial statements within the coming weeks.

FDIC Chairman L. William Seidman said today: "We are pleased to reach this agreement with the GAO. The FDIC and the GAO agreement should mitigate the potential for audit adjustments in this area in the future."

# # #